TOKYO GAZETTE

A MONTHLY REPORT OF CURRENT POLICIES, OFFICIAL STATEMENTS AND STATISTICS

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ON THE NATIONAL ELECTRIC POWER POLICY

DEPARTMENT OF COMMUNICATIONS

STATE control of electric power in Japan, when efficiently conducted, will constitute an essential and basic step in the augmentation of productive power, the promotion of industries, and the security of the economic life of the people at large. Under existing circumstances, its bearing upon the strengthening of national defence is great. Nationalization of electric power is therefore one of the most important economic problems, and at the same time is a problem directly and vitally related to the existence and development of the Japanese nation. When viewed in this light, the urgent need for a measure to effect State control may be fully appreciated.

Electricity has now taken the place of coal as the pivotal factor in modern civilization. In point of fact, it forms today the very foundation of industry and the essential element in the development of contemporary life. In certain industries electric power may almost be regarded as the raw material, and in certain cases of exports from Japan the increasing amount of commodities may essentially be classified as the exportation of electric power itself. On the other hand, cases have increased in Japan in which the efficient operation of electric power has enabled a check in the importing of certain commodities.

The much discussed problems of development of agrarian communities and electrification of homes also can be solved, to a considerable extent, by the cheap and abundant supply of electric power. In other words, by substituting human labour with electric power and by economizing the labour thus saved through the full utilization of power a totally new phase will be inaugurated in the crude, naive system of Japanese agriculture. To illustrate further, the improvement in irrigation and drainage facilities, which is the first requisite for the increase of better rice-fields and crops, can be effected only by supplying power to agrarian communities in abundance and at moderate rates.

Another important point to be noted here is that to utilize fully the water power which is one of the most valuable natural resources peculiar to the topography of Japan is, in positive terms, to realize the greatest of Nature's blessings and, in negative terms, to economize on other sources of power such as coal and petroleum which can be

substituted by water power. The real significance of this point can be brought home to the Japanese mind when we are reminded of the fact that this latter set of resources, with which Japan is not blessed by nature, constitutes one of the basic elements in the material strength upon which a modern nation stands.

With regard to the bearing of the power problem upon national defence, Great Britain's experience during the World War is sufficient to prove its serious nature. With her many small-scale generating systems, Great Britain encountered serious difficulties in supplying power which had come to be demanded urgently and increasingly by munition plants. It is therefore an unqualified neccessity for the efficient mobilization of power in time of emergency to be fully prepared in time of peace with a complete plan of connecting and adjusting all systems of power distribution. To plan in time of peace for the development of chemical industries through adequate supply of electric power with a view to facilitating their conversion into munition industries in time of war is certainly a practical measure for effecting economy in national defence.

Hence, State control of electric power is perfectly justified on economic as well as on national grounds. Furthermore, the facts that the power industry requires stupendous equipment, that its enterprises tend naturally to monopoly, that large-scale and unified operation alone can ensure advantages in construction and management, and that it has both national and public uses call necessarily for a single system of unified operation and State supervision. The necessity for such a drastic measure is, in fact, born out of technical as well as political considerations. This too accounts for the resuscitation of the problem of power control as an important national measure.

Practical Measures for Power Control

The ideal to be attained through control of power is to bring about the highest state of technological efficiency in achieving nationalization of power supply, by coordinating all power equipment in the country for unified national purposes and by operating it accordingly, thus eliminating abuses of monopoly and reducing costs of generation. Because of such possibilities, the policy of State power control has long been advocated by thinking people both in learned and business circles, creating favourable repercussions among the general public.

However, the realization of State ownership and management of the power industry is difficult in view of the present financial

condition of Japan, for it entails the annual issuing of enormous public loans for the development of new power sources. And although these are in the nature of transfer and productive loans under the special account, they cannot but bear seriously on the whole of the public loan policy, inevitably bringing about the expansion of national finance. In particular, the present emergency in Japan's national life makes it well-nigh impossible to carry out such a measure. Even if it were possible to purchase the whole equipment, changes in financial policies, rejection of the budget by the Diet and other unfavourable developments might interrupt the execution of the expansion and improvement of the equipment, and the regulations concerning the governmental accounts system and other limitations might interfere with its economical construction and maintenance.

Another conceivable measure for control is the amalgamation of the "Big Five" power companies. Accordingly, it has been proposed to amalgamate the Tokyo Electric Light, Tokyo Electric Power, Daido Electric Power, Japan Electric Power and Ujigawa Electric Power companies, whose fixed assets aggregate 1,500,000,000 yen and whose total generation capacity covers the greater part of the aggregate total of the entire capacity in Japan. This amalgamation would establish connections in generation and transmission systems, and bring an increase in the load and economy in the reserve equipment, and consequently realize the purpose of controlling electrical undertakings in Japan. In fact, this measure would go a long way toward attaining the desired purpose in respect to power economy in terms of equipment. From the viewpoint of national economy, however, it would only intensify capitalistic monopoly, resulting increasingly in threatening consumers and destroying the thorough, efficient working of governmental supervision.

The last measure proposed is one of planning for a coordinated unification of all the generation and transmission systems by means of voluntary achievement of common account management by the "Big Five." Though not without certain merits, this measure would, through introduction of common account management, make the existence of individual participating companies merely nominal. By framing various plans perhaps well intended but by no means free from considerations of conflicting interests between the individual companies, this measure would defeat the purpose of unification. It cannot, therefore, be expected to prove effective in developing power sources in accordance with national policy, nor can it safeguard itself against the evils of monopoly which similarly form an obstacle in the preceding amalgamation measure.

Yet these considerations will in no way serve as refutation of the necessity of power control. They indicate the necessity of careful study in the matter of the measure finally to be adopted, in view of its effect upon existing enterprises, and on business efficiency after the enforcement of control. Accordingly the Government considered it wise to seek cooperation of governmental and private experts, those actually engaged in the industry and representatives of consumers, and created the Electric Power Commission to render a decision on a concrete measure for the early execution of power control.

This Commission has consequently made the recommendation that State power control is most exigent and that it should be carried out through the cooperation of governmental and private interests. In order, however, to ensure penetration of the will of the State in carrying out the control and to realize the ideal of cooperation between the Government and the people, giving full scope to the merits of each party within the structure so designed, it has been recommended that the basic matters regarding the operation of the industry and other matters pertaining to its business aspect should be in the hands respectively of the Government and private institutions.

After the thorough examination of the contents of the recommendation, the Government has approved it as embodying the most appropriate practical measure for the purpose, and has framed, on its basis, the outline of a national power policy, which is to be proposed at the 73rd session of the Imperial Diet as a legislative bill.

Outline of the Power Policy

The following are the essential points of the proposed national power policy.

I. Scope and Extent of Control

1. Generation and transmission of electric power by means of the equipment which is necessary for State control and which is described below shall be controlled by the Government :

(a) The important new equipment for hydraulic generation, which includes the existing hydraulic generation equipment that cannot be dispensed with for rational utilization of water power resources.
(b) The important equipment for thermal generation.
(c) The important equipment for power transmission.

The physical features of Japan can best be described as narrow and long. The main islands are traversed in the centre, throughout their entire length, by a chain of mountains, forming a series of available heads of water. Being also a sea-girt country, Japan abounds in rainfall, naturally affected by the seas. These topographical and climatic features provide throughout the country rivers extremely rich in volume of water and in head, thus providing the nation with an abundance of water power sources which is an invaluable blessing for a country deficient in natural resources.

According to an investigation conducted in 1918, the total quantity of stored water power in Japan was estimated, on the basis of the average volume of water and in terms of electric power, at 11,000,000 theoretical kilowatts. It should be noted, however, that as the quantity of water power already developed to this date amounts, in terms of electric power, to 5,000,000 theoretical kilowatts, the quantity left undeveloped does not exceed 6,000,000 theoretical kilowatts. This forces the conclusion that, if a quantity representing 400,000 or 500,000 kilowatts is developed annually to meet the growing demand for electric power, the total available quantity will be exhausted in about ten years. Such a state of affairs with reference to water power which is the principal source of electric power is certainly serious, in view of the national and social significance of the latter. It is therefore imperative that utilization to the fullest extent of human intellect of undeveloped water power resources should be made. By so doing the quantity of water power as the source of electric power can be doubled under the present state of technical progress. Particularly, if the regions ranging from the point of the higher head upstream to the point of the lower head downstream which were not approached from business and technical points of view in 1918 are explored for the perfect development of new resources, the stored quantity of water power in Japan is certain to rise, again in terms of electric power, to more than 20,000,000 theoretical kilowatts.

However, in the situation prevailing in the power industry, in which many private institutions with conflicting interests are operating and in which plans for developing resources are being made only on the basis of their limited economic power and of the consuming capacity of their constituencies, such plans cannot be expected to be carried out in a way most effective for and satisfactory to national purposes. It is therefore essential that the undeveloped resources at least be placed under direct national control so as to make it possible to exploit them positively and rationally exhausting all material and intellectual means and taking into consideration the

physical features and surroundings. In connection with the development of the new resources, conservation works such as large-scale afforestation and storing of water should also be carried out so that relations between the hydraulic power industry and other water utilization activities such as fisheries, the floating of timber and irrigation works may be kept free from friction. Such friction has in the past constituted a noticeable factor in higher construction costs in the work of developing water power resources and the consequent higher costs of generation. Such maladjustment can be eliminated only by means of State control.

The proposed plan of State power control, unlike the plan drawn up last year, does not, in principle, make water power resources already developed the direct objective of its control. This exemption is made out of considerations that the volume of water in those resources which can be utilized for purposes of generation is more or less fixed according to the scale of the existing equipment, that the control of the transmission equipment will be sufficient for the purpose of their full utilization, that the economy achieved in providing capital funds for the special company to be created in this connection will make smaller the possible effect of this control measure upon economic circles, and that the saving of time by making unnecessary such a procedure as appraising the invested equipment will hasten realization of the State power control policy demanded by the present emergency. However, the equipment such as that for the purpose of supplementary supply and of the peak load which is used in a similar way as that for thermal generation, and the hydraulic generation equipment already in operation which must be radically reconstructed in order to ensure better and more complete utilization of resources should necessarily be placed under State control.

In regard to point (b), the technical progress of hydraulic generation in recent years has greatly enhanced the value of thermal generation. This progress is of particular value because of the fact that, since the volume of river water available for generation purposes is developed on the basis of that for three months, the joint use of the thermal generation method is essential to make up for the shortage of the volume of water, thus enabling electric power of high value to be obtained all the time. After the coming into force of the proposed measure of control—when water power resources are developed on a large scale and transmission connections are completed throughout the country between different water systems—it will be particularly important that the existing thermal generation equipment be reconstructed or put into different methods of operation, with a view

to employing the plant according to priority in respect to the efficiency and scale so that the reserve heating power is economized and preserved for a time of emergency.

With regard to the thermal generation equipment to be constructed, it must also be efficiently planned on such a scale as to keep itself in close relation to the existing hydraulic generation equipment, with the result that utilization of water power resources is effectively made. Such planning will certainly contribute toward economy in fuel consumption and in the lowering of generating costs. The existing thermal generation equipment, however, being under the divided ownership of industrial concerns with conflicting interests, cannot be expected to be operated in harmony and coordination. Further difficulties are found in the fact that, as different owners of the equipment operate it in accordance with their own special circumstances, some of them suffer from having the greater part of their large-scale and highly efficient equipment lie idle while others in adjoining districts are operating their small-scale and inefficient equipment to the fullest extent of its capacity at higher costs of generation.

This state of affairs imposes a heavier burden on consumers, runs counter to the conservation of fuel resources, and creates in consequence many undesirable national and social problems. Here are grounds for attaching great importance on the part of the Government to the thermal generation equipment and for placing it within the scope of direct State control.

Now let us consider point (c). Rivers differ greatly in volume of water according to their geographical situation, while the demand for electric power differs considerably both in respect to the quantity and in respect to the seasonal fluctuation according to the method of its use. Consequently, economy in the use of electric power cannot be achieved until connections between transmission lines and between different water systems are completed throughout the country. Without such connections it is absolutely impossible to make up for shortages in the total volume of water and in the aggregate total of the volume of all resources, through the efficient operation of thermal generation. Without them it is impossible to make adjustment of supply and demand, especially in cases where there are demands for power differing in load. These connections, again, are essential for increasing the reserve working capacity of the equipment and its utilization efficiency, and in consequence for cheap and abundant supply of power. Divided ownership and utilization at will, however, of the transmission lines form serious obstacles in

carrying out such measures as supplying surplus water power to districts where shortage in the volume of water is supplemented by thermal generation, such measures as eliminating waste in transmission equipment and improving its utilization efficiency, and such measures as concentrating all the electric power available for emergency purposes by mobilizing all the generation capacity. State control of the important transmission equipment, therefore, constitutes a fundamental provision in the proposed national power policy.

2. The equipment coming within the scope of State control as described in the foregoing paragraphs shall be constructed by a special company created for the purpose, and that which is already in operation shall be placed at the use of the new institution as the investment of its owners.

The electric power generated by the existing equipment for hydraulic generation which is connected with the above-described transmission equipment shall be purchased. In certain cases, however, its transmission by means of the equipment owned by the new institution may be allowed.

Appraisal of the invested equipment and decisions on the rate of power purchase shall be made on definite standards of computation and on the approval of a Commission which will be specially created for the purpose. With regard to the loans secured on the invested equipment, the Government shall take adequate and just steps necessary for safeguarding the rights of the creditors.

The existing power equipment coming within the scope of the control of the State is required, as has been made clear, to be invested in the special company. Public utility enterprises such as electric power, local railways, tram-ways and water works are generally stipulated in law as enterprises which can be expropriated by the State or public bodies on grounds of their being licensed, utility enterprises. It is inevitable, therefore, for the power industry to be forced to invest its equipment in the enterprise having a definite national purpose in order to fulfil the mission of the industry which has become increasingly momentous in recent years.

Since the proposed measure includes the enforcement at the will of the State of transfer of property rights in the form of investment in the new company, the appraisal of the invested equipment should be made in an adequate and equitable way, to the complete satisfaction both of the investors and of the nation. Accordingly, it is expected that in the proposed measure the agreement on this impor-

tant practical matter will be reached in a harmonious and conciliatory manner between the interested parties. And when the agreement is thus reached, it will be authorized by the Government. When, however, the negotiation fails, the Government will make the decision. In both cases the Government will act not arbitrarily but in accordance with a certain definite standard and upon the recommendation of an appraisal commission composed of men with expert knowledge and practical experience selected from governmental and private circles. A provision is also being contemplated allowing civil action against an unsatisfactory decision.

All the electric power generated by the existing hydraulic generation equipment connected with the invested transmission equipment, will be purchased by the special company, and the rate of purchase will be decided on with the same careful procedure as in the case of the invested equipment appraisal, safeguarding the business interests of its owners. This measure will relieve institutions operating only in power generation of anxiety as to whether the whole of the generated power will be purchased. Consequently business conditions will be greatly stabilized. In the case of companies operating both in generation and transmission, the proposed measure will not react to their disadvantage, if power is purchased at the power plant at a price less transmission costs. In the case of companies whose operations cover the whole process of electrical undertakings from generation to distribution, they will be able to concentrate their business in the distribution of power by having access to power sources everywhere; they will be free from cares concerning generating and transmission finances and construction work.

As to the problem arising concomitantly from the transfer to the special company of the power equipment which is held in mortgage against the debentures, the question with reference to debentures, especially foreign loans, which is likely to be raised with the execution of the control measure, will be settled in such a way as to respect the rights and interests of debenture holders and creditors. In respect to the material mortgage, ways will be provided in which the contents of floating mortgages will remain unchanged and valid even after the property representing those mortgages is invested, in accordance with the requirement of the new measure, in the proposed semi-official institution.

Furthermore, the Government is contemplating providing for means of causing the proposed company to be responsible for payment of the principals and interests of the debentures, and even guaranteeing or allowing the new company to guarantee payments. The Government is firmly convinced, in this connection, of the

practicability of its appropriate measure for safeguarding the rights of the creditors and eliminating any sense of insecurity. In particular, with regard to foreign loans, as these involve the question of international good faith, the Government gives assurance that nothing contrary to that international principle will take place.

II. Procedure of Control

1. In carrying out the control measure, important matters relating to supply and demand, plans for the construction of the generating and transmission equipment shall be decided on by the Board of Electricity which will be created for this purpose. Issuing of instructions regarding power distribution and supply shall also be made by the Board.

2. The construction of equipment and the operation of business shall be executed by the special company to be created, in accordance with the decisions rendered by the afore-mentioned Board.

3. In order to ensure adequate and equitable functioning of the measure, all important matters shall be referred to the Electric Power Council for its recommendations. This Council shall be created with a membership including the best minds in official and private circles.

The purpose of State power control is, through close cooperation between the Government and the people, to effect the thoroughgoing and rational development and utilization of water power resources, the full and complete use of hydraulic and thermal generation, and the perfect and comprehensive improvement in utilization efficiency of the equipment in terms of national economy and defence. To achieve this purpose, it is thought advisable for the Government to assume responsibility in making decisions, on recommendation of the Electric Power Council, concerning basic matters in the operation of the industry—a measure which is also calculated to ensure the penetration of central control through the whole industry. On the other hand, it is considered advisable to leave the business aspects of operation of the industry in the hands of the special company which will promote energetic activity and economical management, thereby giving full scope to the initiative of private enterprise and to the economic advantage of the proposed system of Government-people collaboration. This participation by private interests in the enterprise will effectively eliminate the evils of pure governmental operation, while the complete control of important matters by the State will arrest any possible arbitrariness or selfish action on the part of the special company.

III. Special Company

1. The special company, of which mention has been made previously, shall be rendered governmental facilities for raising funds and guaranteeing dividends, reduction of and exemption from taxes and other privileges necessary for business operation.

2. Officers of the Company shall be appointed by the Government; the creation of and changes in the articles of association, the issuing of debentures, the disposition of profits and other important matters shall be made with the approval of the Government; and orders necessary for supervision of the business of the Company shall be given by the Government.

Since the proposed special company is in the nature of a substitute institution taking partial charge of the execution of the national power policy, it is natural that the raising of the funds and other facilities essential for the successful operation of business should be accorded, that the Governor and Vice-Governor of the company be appointed by the Government with Imperial sanction and the directors be selected from among the candidates, numbering twice as many as the directors, elected at the general meeting of the shareholders. As for the actual operation of business, however, this should be in the hands of an able and experienced staff so that full scope may be given to their initiative. The requirement of governmental approval, concerning the creation of and changes in the articles of association, the issuing of debentures, and the disposition of profits is intended to ensure the perfect execution of official supervision over the company. By these arrangements, it is felt that each party, whether governmental or private is safeguarded against falling into the evils of self-conceit.

IV. Power Distribution Business

1. For the purpose of enlarging and strengthening the scope and extent of control of the distribution business in keeping with the State control of power generation and transmission, the rearrangement and coordination of areas for distribution shall be effected and the improvement of business conditions and the popularization of power utilization shall be promoted by the Government.

2. For the purpose of lowering and equalizing the rate of distribution in keeping with the price policy under State control, governmental supervision shall be augmented.

The power distribution business is by nature complicated and

many-sided in its operations, being intimately associated with the daily life of the people, and has a greater element of business in its transactions and services than electrical undertakings as a whole. Furthermore, due to its local characteristics, it lacks the elements that would render its unified operation throughout the country technically and economically advantageous. Therefore it is considered advisable not to place it under State control, a consideration which is in accordance with the policy of making the effect on economic circles of the control measure as light as possible. It is to be borne in mind, however, that without augmenting the control of this phase of electrical undertakings in correspondence with the basic policy of the rational and economic planning of power production and supply, the whole purpose of the national power policy cannot be achieved. Accordingly, a measure for effecting rearrangement and coordination of distribution areas, the levelling down of operation costs, the improvement of business conditions, and the standardization of the rate of distribution should be adopted along with one enforcing more adequate and effective supervision of distribution rates in keeping with the proposed rate policy under State control. Nor should the strengthening of the supervision in the direction of realizing the positive plans and undertakings for the wider and better utilization of electric power in the rural communities be neglected.

V. Power Mobilization

1. A fair quantity of surplus power shall be stored at all times in preparation for emergencies and reserve equipment shall be properly arranged. As for the generation of power for private purposes, it shall also be subjected to control and coordination to a certain extent.

2. With a view to ensuring the supply of power and to meeting its immediate needs, the measure for control of consumption shall be carried out according to the requirements of circumstances.

In preparation for quick concentration of power in the places where it will be required during the time of large-scale national mobilization, transmission connections should be perfectly arranged ; thermal generation equipment which is not in use in ordinary times on account of lower efficiency should be preserved for emergency purposes ; and the generation equipment for private purposes should be connected in advance with principal transmission lines under State control. A measure for control of consumption should also be provided in order to complete the nation-wide preparations governing power supply in the time of emergency.

RESOURCES OF THE TREASURY DEPOSIT BUREAU

TREASURY DEPOSIT BUREAU

THE funds at the disposal of the Treasury Deposit Bureau as of September 5, 1937, exceeded 5,000,000,000 yen. The story of the fifty years of the Bureau may itself be taken as the history of the growth of Japan's economic strength. Since its creation in 1885 as an institution to receive and invest deposits of various descriptions under the Regulations on Deposits, promulgated by a Notification of the *Dajokwan*,* the Treasury Deposit Bureau has made steady development and its loanable funds increased from 100 million yen in 1906 to 500 million yen in 1917, 1,000 million in 1920, 2,000 million in 1927, 3,000 million in 1930 and 4,000 million in 1933, until at present the figure reaches over 5,000 million yen. With this huge amount of funds at its disposal, the Treasury Deposit Bureau extensively administers loans and advances.

One of the noteworthy features of the Bureau's activity during recent years is the fact that the Deposit Bureau has come to make its influence strongly felt also in the short loan market, so that the organization is now a governmental financial institution of veritable influence in Japanese financial circles.

Now, what is the Treasury Deposit Bureau? What is the nature of the resources at its disposal, and how are the funds employed? During the early years of its existence, the function of the Deposit Bureau lay in receiving and employing in a reasonably lucrative way deposits of funds that afterwards came to be known as Postal Savings, and of other funds belonging to governmental departments and private individuals. Subsequently, deposits of a much wider scope were received, including funds in the Government's Depository, or belonging to the Government's Special Accounts and Surplus Funds together with Reserve Funds of the Central and local governments, as well as deposits of special banks and companies. In 1925, the Deposit Law and Law Concerning Special Accounting of the Treasury Deposit Bureau were either amended or newly enacted, as the result of which the operations of the Treasury Deposit Bureau have been greatly systematized.

The Deposit Bureau employs deposits it receives, together with its

*The *Dajokwan* was the central administrative organ of the Meiji Era, prior to the establishment of the present Cabinet in 1885.

own reserve and surplus funds, chiefly in taking up or purchasing government bonds and in making loans and advances to local public bodies. Being a government institution, the Bureau is not primarily concerned in making profits as such. On the contrary, by supplying funds at very low rates of interest, it endeavours to aid public bodies. Today, the resources of the Deposit Bureau equal those of Japan's five leading banks (Mitsui, Mitsubishi, the First, Yasuda and Sumitomo) put together and half as much as the total deposits at all ordinary banks.

As has already been mentioned, the resources of the Treasury Deposit Bureau consist of various kinds of deposits and of reserve and surplus funds of its own. Of the deposits, as much as 3,800 million yen represents Postal Savings which comprise all the savings deposits received at Post Offices not only in Japan proper but also in Chosen, Taiwan, Karafuto, Kwantung Province and the Mandated Islands in the South Seas. These deposits, which barely exceeded 100 million yen in 1907, have grown steadily reaching 1,000 million in 1922, 2,000 million in 1929, and 3,000 million in 1934. Today, in spite of the national emergency, they aggregate no less than 3,800 million yen. There are 50 million depositors with an average credit of 70 yen. Thus, Postal Savings deposits account for 84 per cent of the total deposits at the Treasury Deposit Bureau.

Next to Postal Savings in order of importance come deposits of the Government's special accounts, which at present amount to 500 million yen. The balance of the deposits of about 700 million yen is contributed by funds held in custody by, or deposited with, the Government, surplus funds of the prefectural governments, and various other deposits. The reserve funds of the Treasury Deposit Bureau also have grown by degrees from 39,000 yen in 1885 to 620 million yen at the present writing.

How, then, are these funds employed? The Law Concerning the Deposits at the Treasury Deposit Bureau prescribes that the resources of the Bureau be employed in such a manner as to promote public good by sound and profitable methods. A Committee is created for the purpose of passing on any proposed investment and employment of funds. The nature of investments may be seen from the fact that 85 per cent of the total resources are invested in Government bonds and in loans and advances to local governments. The amount of Government bonds taken up by the Deposit Bureau has increased sharply. For 1936 alone, this amount reached 200 million yen, a sum likely to be more than doubled in 1937. The holdings of Government bonds to date aggregate something over 2,300 million yen, which correspond to 20 per cent of the amount of the Govern-

ment's internal loan bonds outstanding.

In view of the fact that an important portion of the funds coming to the Treasury Deposit Bureau represent Postal Savings gathered from all parts of the country, it is imperative that the Bureau administer to the needs of all districts of the country. In fact, the loans and advances of the Bureau cover the whole land extending to Chosen, Taiwan and Karafuto. They are given to various kinds of public utilities and relief works in the prefectures, municipalities, towns and villages, or to the readjustment of obligations incurred mostly by the agrarian population. The outstanding amount of these loans and advances, comprising some 190,000 items, rises in the neighbourhood of 2,000 million yen.

From 1932 onwards, increasingly large amounts of relief funds have been released to local governments by the Deposit Bureau, with the result that they are responsible for one-third of the local government loans outstanding. Various agricultural, commercial, and industrial associations, such as housing, irrigation, fishery, forestry, cattle raising, brewery, and export trade, are all benefited by the disbursements of the Treasury Deposit Bureau funds. One can hardly travel into the country without seeing the fruits of the Bureau's activities. Small- and medium-sized tradespeople and industrialists, who are very likely to be neglected by the banks, find ready assistance from the Deposit Bureau. It may also be noted that loans administered in the outlying regions such as Chosen, Taiwan and Karafuto are mostly long-term credits.

Short-term credits extended by the Treasury Deposit Bureau are assuming more and more importance in recent years. Indeed, the practice of the Bureau has been to release from time to time, according to the needs of the money market, short-term funds through the special banks. The present emergency is making especial call upon the resources of the Deposit Bureau to facilitate the nation's industrial activities and to ease money market conditions. Thus, the outstanding amount of the short-term loans made by the Deposit Bureau through the special banks and local public bodies now totals 260 million yen.

As has been seen, the rapidly increasing resources of the Treasury Deposit Bureau now exceed 5,000 million yen and its holdings of Government bonds reach 2,300 million yen. About 2,000 million yen is employed as loans and advances in all parts of the country, the balance on hand is employed in the shape of short-term loans in the money market. Thus, it will be seen that in the economic and financial development of Japan the rôle of the Treasury Deposit Bureau is a leading one.

DOCUMENTS CONCERNING THE PANAY AND LADYBIRD INCIDENTS

I

The Panay Incident

Mr. Koki Hirota's Note to Mr. Joseph C. Grew,
Dated December 14, 1937

REGARDING the incident of December 12th in which the United States gunboat Panay and three steamers belonging to the Standard Oil Company were sunk by the bombing of the Japanese naval aircraft on the Yangtze River at a point about twenty-six miles above Nanking, I had the honour, as soon as unofficial information of the incident was brought to my knowledge, to request Your Excellency to transmit to the Government of the United States the apologies of the Japanese Government. From the reports subsequently received from our representatives in China, it has been established that the Japanese naval air force, acting upon information that the Chinese troops fleeing from Nanking were going up the river in steamers, took off to pursue them, and discovered such vessels at the above-mentioned point. Due to poor visibility, however, the aircraft, although they descended to fairly low altitudes, were unable to discern any mark to show that any one of the vessels was an American ship or man-of-war. Consequently the United States gunboat Panay and the vessels of the Standard Oil Company, being taken for Chinese vessels carrying escaping Chinese troops, were bombed and sunk.

While it is clear that, in the light of the above circumstances, the present incident was entirely due to a mistake, the Japanese Government regrets most profoundly that it has caused damages to the United States man-of-war and ships and casualties among those on board, and desires to present hereby sincere apologies. The Japanese Government will make indemnifications for all losses and will deal appropriately with those responsible for the incident. Furthermore, it has already issued strict orders to the authorities on the spot with a view to preventing the recurrence of a similar incident.

The Japanese Government in the fervent hope that the friendly relations between Japan and the United States will not be affected

by this unfortunate affair, has frankly stated as above its sincere attitude, which I beg Your Excellency to make known to your Government.

Mr. Koki Hirota's Note to Mr. Joseph C. Grew,
Dated December 24, 1937.

Regarding the unfortunate incident occurring on the Yangtze River about 26 miles above Nanking on December 12th, in which Japanese naval aircraft attacked by mistake the U.S.S. Panay and three merchant ships belonging to the Standard Oil Company of America, causing them to sink or burn with the result that casualties were caused among those on board, I had the honour to send to Your Excellency my Note dated December 14th. Almost simultaneously, however, I received Your Excellency's Note which was sent by the Government of the United States, and which, after describing the circumstances prior to the occurrence of the incident, concludes that the acts of the Japanese forces in the attack were carried out in complete disregard of the rights of the United States, taking American life and destroying American property, both public and private; and which states that, " in these circumstances, the Government of the United States requests and expects of the Japanese Government a formally recorded expression of regret, and an undertaking to make complete and comprehensive indemnifications, and an assurance that definite and specific steps have been taken which will ensure that hereafter American nationals, interests, and property in China will not be subjected to attack by Japanese armed forces or unlawful interference by any Japanese authorities or forces whatsoever."

As regards the circumstances surrounding the present unfortunate incident, I desire to state that while Your Excellency's Note concludes that the incident resulted from a disregard of American rights by Japanese armed forces, it was actually due entirely to a mistake, as has been described in my Note of December 14th. As a result of the thorough investigations which have been conducted in all possible ways since then to ascertain the real causes, it has now been fully established that the attack was entirely unintentional. I trust that this has been made quite clear to Your Excellency through the detailed explanations made to Your Excellency on the 23rd instant by our naval and military authorities.

With reference to the first two items of the requests mentioned in Your Excellency's Note, namely, a recorded expression of regret and indemnifications, no word needs to be added to what I have said

in my aforementioned Note. As regards the guarantee for the future, I wish to inform Your Excellency that the Japanese Navy issued without delay strict orders to "exercise the greatest caution in every area where warships and other vessels of America or any other third Power are present, in order to avoid a recurrence of a similar mistake, even at the sacrifice of a strategic advantage in attacking the Chinese troops." Furthermore, rigid orders have been issued to the military, naval, and foreign office authorities to pay, in the light of the present untoward incident, greater attention than hitherto to observance of the instructions that have been repeatedly given against infringement of, or unwarranted interference with, the rights and interests of the United States and other third Powers. Simultaneously, the Japanese Government is studying carefully every possible means of achieving more effectively the above-stated aims, while it has already taken steps to ascertain, in still closer contact with American authorities in China, the locations of American interests and nationals, and to improve the means of communicating intelligence thereof speedily and effectively to the authorities on the spot.

Although the attack on the man-of-war and other vessels of the United States was due to a mistake as has been stated, the Commander of the Flying Force concerned was immediately removed from his post, and recalled, on the grounds of failure to take the fullest measures of precaution. Moreover, the staff members of the fleet and the commander of the flying squadron and all others responsible have been duly dealt with according to law. The Japanese Government is thus endeavouring to preclude absolutely all possibility of the recurrence of incidents of a similar character. It may be emphasized that, of all the above-mentioned measures taken by the Japanese Government, the recall of the Commander of the Flying Force has special significance. It is my fervent hope that the Government of the United States will fully appreciate the fact that this drastic step has been taken solely because of the sincere desire of the Japanese Government to safeguard the rights and interests of the United States and other third Powers.

Mr. Joseph C. Grew's Note to Mr. Koki Hirota,
Dated December 26, 1937

I have the honor, by the direction of my Government, to address to Your Excellency the following note:

"The Government of the United States refers to its note of December 14th, the Japanese Government's note of December 14th

and the Japanese Government's note of December 24th in regard to the attack by Japanese armed forces upon the U.S.S. Panay and three American merchant ships.

" In this Government's note of December 14th it was stated that ' The Government of the United States requests and expects of the Japanese Government a formally recorded expression of regret, an undertaking to make complete and comprehensive indemnifications, and an assurance that definite and specific steps have been taken which will ensure that hereafter American nationals, interests and property in China will not be subjected to attack by Japanese armed forces or unlawful interference by any Japanese authorities or forces whatsoever.'

" In regard to the first two items of the request made by the Government of the United States, the Japanese Government's note of December 24th reaffirms statements made in the Japanese Government's note of December 14th which read ' The Japanese Government regrets most profoundly that it (the present incident) has caused damages to the United States' man-of-war and ships and casualties among those on board, and desires to present hereby sincere apologies. The Japanese Government will make indemnifications for all losses and will deal appropriately with those responsible for the incident.' In regard to the third item of the request made by the Government of the United States, the Japanese Government's note of December 24th recites certain definite and specific steps which the Japanese Government has taken to ensure, in words of that note, ' against infringement of, or unwarranted interference with, the rights and interests of the United States and other third Powers ' and states that ' The Japanese Government is thus endeavoring to preclude absolutely all possibility of the recurrence of incidents of a similar character '.

" The Government of the United States observed with satisfaction the promptness with which the Japanese Government in its note of December 14th admitted responsibility, expressed regret, and offered amends.

" The Government of the United States regards the Japanese Government's account, as set forth in the Japanese Government's note of December 24th, of action taken by it as responsive to the request made by the Government of the United States in this Government's note of December 14th.

" With regard to the facts of the origins, causes and circumstances of the incident, the Japanese Government indicates in its note of December 24th the conclusion at which the Japanese Government, as a result of its investigation, has arrived. With regard to these

same matters, the Government of the United States relies on the report of findings of the court of inquiry of the United States Navy, a copy of which has been communicated officially to the Japanese Government.

"It is the earnest hope of the Government of the United States that the steps which the Japanese Government has taken will prove effective toward preventing any further attacks or unlawful interference by Japanese authorities or forces with American nationals, interests or property in China."

Statement of the Japanese Foreign Office Spokesman,
Dated December 26, 1937.

His Excellency Mr. Joseph C. Grew, the American Ambassador to Japan, called on the Foreign Minister, Mr. Koki Hirota, at 11:30 o'clock on the morning of December 26th; after informing the Foreign Minister that he came to make a happy report, the American Ambassador read essential contents of the Note of the Government of the United States to the Government of Japan, and then made representations to the Foreign Minister, with special reference to the last paragraph of the American Note, to the effect that the Government of the United States hopes that the steps which the Japanese Government has taken will prove effective toward preventing any further attacks or unlawful interference by Japanese authorities or forces with American nationals, interests or property in China. In response to this the Foreign Minister, Mr. Hirota, giving expression to the profound gratitude of the Japanese Government for the attitude shown by the Government of the United States and the earnest efforts of the American Ambassador, Mr. Grew, toward the present incident, stated that although it was exceedingly regrettable that an unfortunate incident such as this had happened, it was a matter for congratulation that the incident had reached an amicable settlement through the friendly spirit existing between the United States and Japan.

II

The Ladybird Incident

Mr. Koki Hirota's Note to Sir Robert L. Craigie,
Dated December 14, 1937

I have the honour to state that the Japanese Government regrets profoundly the incidents of December 12th, in which British men-

of-war, the Ladybird, the Bee, the Cricket and the Scarab, were by mistake subjected to gunfire and aerial bombing by Japanese forces in the vicinities of Wuhu and Nanking, and to express herewith to Your Excellency on behalf of my Government its sincere apologies. I desire to inform Your Excellency that the Japanese Government has already taken the necessary steps to prevent the recurrence of an incident of such character, and to add that it will, upon the completion of investigations, deal appropriately with those responsible for the incidents, and also that it is prepared to make the necessary indemnification for the losses sustained by the British.

It is the fervent hope of the Japanese Government that the traditional friendship between Japan and Great Britain will not be affected by these unfortunate incidents.

Sir Robert L. Craigie's Note to Mr. Koki Hirota,
Dated December 16, 1937

I have the honour on instructions from His Majesty's Government in the United Kingdom to address Your Excellency on the subject of attacks made by Japanese aircraft and land forces on British warships and merchant shipping at Wuhu and near Nanking on 12th December. These incidents clearly raise grave issues.

2. At Wuhu a British tug which had conveyed from Nanking His Majesty's Consul, the British Military Attaché and the Flag-Captain to the British Rear-Admiral, Yangtze, was attacked by Japanese machine-gun fire after transferring these officers to H.M.S. Ladybird. The latter proceeded to join the tug in order to protect her, when she observed a Japanese field gun battery firing on merchant ships concentrated above the Asiatic Petroleum Company's installation. Firing continued and was directed at H.M.S. Ladybird herself.

3. There were four direct hits on this vessel: one naval rating was killed, another was seriously wounded and there were several minor casualties including the Flag-Captain. A direct hit was also seen to be sustained by the British merchant ships at Suiwo. H.M.S. Bee then arrived on the scene and was also fired on by the shore battery. The Commander of H.M.S. Bee landed to protest and was informed by Colonel Hashimoto, the senior Japanese military officer then at Wuhu, that firing on warships was due to a mistake but that he had orders to fire on every ship on the river. At a later interview the same officer stated categorically that if any ships moved on the river they would be fired on and, despite protests, H.M.S. Bee and Ladybird after berthing remained covered by guns at point-blank range.

4. Near Hsia San-shan above Nanking where British merchant ships were concentrated in a part of the river previously designated by the Japanese Commander-in-Chief as a safety-zone, three separate bombing attacks were made by Japanese aircraft on them and on H. M. ships Cricket and Scarab which were with them.

5. His Majesty's Government has now been glad to receive Your Excellency's note of the 14th December offering the profound apology of the Imperial Japanese Government for the attacks on His Majesty's Ships, stating that measures were immediately taken to prevent the recurrence of such incidents and adding that it will deal suitably with those responsible and pay the necessary compensation.

6. His Majesty's Government observes that Your Excellency's note makes no mention of the attacks on British merchant vessels and I am instructed to request that an assurance may be given that all that is said in that note applies equally to these attacks.

7. His Majesty's Government takes particular note of the statement that those responsible will be suitably dealt with. Adequate punishment of those responsible for the particular attacks under discussion seems indeed to His Majesty's Government to be the only method by which further outrages can be prevented.

8. His Majesty's Government cannot but recall the previous incidents in which the Japanese Government has expressed regret for attacks made on British nationals and property and has given assurances that adequate steps had been taken to prevent any repetition. They call to mind the attack made on His Majesty's Ambassador to China while travelling by road from Nanking to Shanghai, the subsequent attack on motorcars conveying British officials on a similar journey, the attacks on British civilians and military posts on the defence perimeter at Shanghai, as well as other incidents, and the repeated assurances of the Japanese Government of its intention fully to respect the interests of third Powers in the present conflict with China. It is clear that the steps hitherto taken by the Japanese Government to prevent such attacks have so far failed in this purpose and His Majesty's Government must now ask to be informed that measures have actually been taken of a character which will put a definite stop to the incidents of which it complains.

Statement of the Japanese Military Authorities, Issued through the Japanese Foreign Office Spokesman, Dated December 28, 1937

Regarding the incident of the shelling of British men-of-war, it is regrettable that, despite earnest endeavours to find out the true facts

in the case, investigation has been delayed since the various troops were scattered at the time, making difficult the establishment of contact because of lack of the means of communication. Immediately after the occurrence of the incident, the Army authorities despatched a staff officer of the Army Department of the Imperial Headquarters to carry on joint investigations on the spot with the authorities concerned. The results so far obtained are as follows :

I. GENERAL SITUATION

1. On December 11th, the Japanese forces, in order to win the final victory after the fighting of more than a hundred days, closed in on Nanking, the capital of China. Having completed their frontal siege on land, they were vying with one another for the capture of its walls. Heavy fires broke out in the city, especially in the direction of Siakwan and dense smoke overhung the Yangtze River.

On that day, Detachment X crossed the Yangtze to its left bank at a point north of Taiping, and advanced toward Pukow in order to intercept the Chinese forces retreating from Nanking.

Simultaneously the high commander and all men of the Japanese force which had advanced to the first line (to Siaomihang Hill south of Yühuatai), assuming that the only available retreat for the hard-pressed enemy at Nanking would be by the Yangtze River, were concentrating their attention in that direction. And in view of the fact that notice had already been served on December 9th by the Japanese Consul General at Shanghai to the authorities of other Powers requesting the evacuation of their nationals from the zone of hostilities and that fighting had become intense, they did not even dream of the presence of any foreign vessels in the neighbourhood of the fighting area.

2. However, about 3:00 o'clock (Japan Time) on the afternoon of the same day, more than ten large steamers were observed fleeing up the river from the direction of Siaokwan. The said high commander, believing them to be carrying the enemy in retreat, ordered the artillery corps nearby to fire on the ships. But as the distance was too great, the shells did not reach the ships which continued their way upstream to the chagrin of all the Japanese soldiers.

Thereupon, the high commander issued an order to the units which were expected to be in the neighbourhood of Wuhu to attack these vessels.

II. ACTION OF DETACHMENT Z.

1. Detachment Z, which was ordered to intercept the enemy's retreat, made a forced march during the night of the 11th and reached the neighbourhood of Wuhu between 7:30 and 8:20 o'clock on the morning of the 12th. It occupied positions there.

On that day although the weather was fine there was dense fog from the morning. The commander of the detachment discovered along the right bank of the Yangtze at a point about three kilometres to the north of his position four large steamers anchored, which appeared to be landing men by launches. Then, at about 9:00 o'clock he noticed some of these steamers suddenly begin to emit black smoke, whereupon the commander, deciding that the enemy was trying to conceal itself behind a smoke screen, gave the order to fire. Shells were seen striking the first and second ships in the foreground. However, the ships in the rear immediately fled downstream and soon vanished from sight, while one of the ships in the front began to advance toward our forces. As she came nearer, a British flag on her was recognized. The commander of the detachment immediately issued the order to cease firing. When the ship came along the pier at Wuhu, it was discovered that she was a British man-of-war, the Ladybird.

2. At about 10:00 o'clock, one shell was fired by mistake at a ship hoisting the British flag which was coming from upstream, but it appeared to have passed high over the vessel. This ship, when arrived at the pier, was identified as the British man-of-war, the Bee.

3. Rear-Admiral Holt who was aboard the Bee, the British Consul who was aboard the Ladybird, and several officers, including captains of the ships, landed and met the commander of the detachment.

At this meeting the commander of Detachment Z said that as the British flag could not be discerned on account of the fog and as the ships were hidden behind black smoke, he had believed the ships to be enemy vessels. Furthermore, after explaining the circumstance regarding large numbers of defeated Chinese soldiers in the neighbourhood of Wuhu at that time who were using the Yangtze for their retreat, he stated that it was the duty of his detachment to sink all enemy vessels on the river. The British thereupon requested the commander not to fire upon them thereafter, to which the commander agreed.

Then the British expressed their desire that, in order to forestall further danger, Japanese officers be put on board the British ships,

but the commander declined to accede to this. At the request of the British, a Japanese captain was ordered to go on board the British man-of-war for the purpose of inspecting the neighbourhood. He saw behind a delta about eight kilometres down the stream six steamers and many junks loaded with Europeans and Americans.

The commander of the detachment apologized for the casualties caused aboard the British men-of-war, lent some of his help to assist in the handling of the dead and wounded, and sent as his proxies an infantry officer and an artillery officer to honour the British dead at the funeral.

The British men-of-war stayed at the pier until about noon and then departed.

III. CONCLUSION

As has been described above, it was by no means suspected, either by the high commander on the spot or by any of the units on the first line, that there might be any vessels of third Powers in the dangerous fighting area particularly at the time of severe encounters, when, as a matter of fact, with a part of the Japanese forces already at Pukow across the Yangtze, the possible path of retreat for Chinese forces was limited solely to the Yangtze River.

Contrary to the judgment of our forces, the facts were that there were British ships in the fighting area. These ships not only could not be recognized as British on account of the dense fog, but seemed to be landing retreating Chinese on the shore; moreover, the movements of the ships were such as to make them appear to be trying to hide behind a smoke screen. In these circumstances the commander of the detachment issued the order to fire at the vessels. The attack, therefore, was not made in the knowledge that the vessels were of British nationality. That the firing was entirely unintentional will be understood by those who know the actual conditions in a battle-field where occurrences of unexpected and extraordinary events are so numerous. All these circumstances notwithstanding, we sincerely regret that there should have taken place the present unfortunate affair.

Mr. Koki Hirota's Note to Sir Robert L. Craigie, Dated December 28, 1937

Concerning the incidents that occurred on December 12th in which Japanese forces attacked British men-of-war and merchant vessels by mistake, I had the honour to address a Note under date of the 14th instant tendering the profound apology of the Japanese

Government, and stating that it had taken the necessary steps to prevent the recurrence of similar incidents, and that it would deal properly with those responsible and also defray the necessary compensation. Your Excellency sent a Note in reply under date of the 16th instant, in which Your Excellency, after describing the circumstances surrounding the incident, stated (1) that the British Government was glad to receive my Note of the 14th mentioned above, (2) that it requested an assurance that the contents of my Note would apply to the attacks upon the British merchant vessels, (3) that it took particular note of the point that those responsible would be suitably dealt with, and (4) that it desired to be informed that measures had been actually taken of a character which would put a definite stop to incidents of such a kind. I hastened to assure Your Excellency immediately in my Note of the 17th instant that what I had said in my Note of the 14th would, of course, apply to the British merchant vessels that had been attacked under such circumstances.

Upon the occurrence of the present incident the Japanese Government did its best to ascertain the facts in the case; but unfortunately, for various reasons, such as the wide separation of the units concerned which was consequent upon the progress of military operations, and the inadequacy of means of communication, the completion of the investigation has been delayed. We have at length received a full report covering all aspects of the incidents, of which the principal points have already been explained by our military and naval authorities to members of Your Excellency's Embassy. As Your Excellency must have gathered from this report, the present incidents were, in each case, due to the fact that our armed forces concerned had assumed that under the circumstances which prevailed at the time all foreign warships and vessels had sought refuge from the theatres of battle and from their vicinity, and that there could be no other vessels left in those localities other than those of an inimical character, and also to the fact that just then, owing to the thick fog or haze, visibility was extremely poor. There is no room for doubt as to the fact that our forces never attacked those vessels intentionally, knowing them to be of British nationality. This is clearly apparent in the light of the one fact alone that our naval air squadrons and military units ceased firing the instant they discovered the nationality of the ships, and that our soldiers gave assistance in taking care of the dead and wounded of the Ladybird.

As regards the assertion advanced to the effect that our military commander concerned spoke of having received an order to fire upon all vessels on the Yangtze, the Japanese Government has, with

special concern, investigated the matter. It has been established that the alleged order applied only to all vessels used for military purposes by the enemy, and was never intended to apply to the vessels of third Powers.

I desire to add that misunderstandings of this nature that have arisen in connection with the conversation between Rear-Admiral Holt and the commander of the Japanese force then at Wuhu are traceable to difficulties in language.

As regards the matter of an apology on behalf of the Japanese Government and compensation, it is only necessary to reaffirm that which I have stated in my previous Note. As for the treatment of those responsible, although it has been established that the incidents were entirely due to a mistake, the Japanese Government, in order to insure against all possibility of similar mistakes, have dealt properly according to law with all those of the Army including the commander of the force and all those of the Navy including the commander of the flying force, who were responsible for the incidents, on the ground that they failed to take the fullest measures of precaution.

Finally, as regards the guarantee for the future, the higher Commanding officer of the Army and the Navy issued, immediately after the incidents, strict orders to the forces under their command not to attack any vessels on the Yangtze unless they have been fully identified as those used for military purposes by Chinese. The naval authorities have also given strict orders to guard against a repetition of such mistakes by exercising the greatest caution in every area where vessels of Great Britain and other third Powers are found, even if such caution may entail the risk of abandoning attacks upon the opposing forces. Also, both the military, naval and diplomatic authorities on the spot have, in view of the present untoward incidents, renewed the rigid instructions which had been repeatedly given to safeguard life and property in the case of third Powers. The Japanese Government is studying and expects to carry out every possible means of realizing the above aims. For example, it intends to ascertain, in still closer cooperation with the British authorities, the whereabouts of British nationals and interests, and to communicate intelligence thereof to the authorities on the spot and also to subordinate units. They have taken steps to improve the facilities of communication for the speedy and effective transmission of orders.

The Japanese Government has taken all measures enumerated above in its sincere desire to render more effective and certain the guarantee for the rights and interests of Great Britain and other

third Powers, and I earnestly hope that this will be appreciated by the British Government.

Sir Robert L. Craigie's Note to Mr. Koki Hirota, Dated December 31, 1937

I have the honour on instructions from His Majesty's Government in the United Kingdom to inform Your Excellency that it has noted with appreciation the assurances contained in Your Excellency's note of December 28th in connexion with the attacks on British warships and merchant shipping on December 12th, and has learnt with satisfaction that the statements contained in your note of December 14th apply to merchant vessels concerned as well as to warships.

His Majesty's Government is bound to observe that its information in regard to the circumstances in which the attacks took place—notably, for instance, on points of visibility—is at variance with that of the Japanese Government.

His Majesty's Government notes, however, with satisfaction that the Japanese Government has taken or is prepared to take the necessary measures to deal suitably with the officers responsible for these incidents and to prevent any repetition. As regards the latter His Majesty's Government considers that the details of these measures and their effective application may suitably form the subject of further conversations in the course of which they do not doubt that they will be informed of actual steps decided upon.

Statement of the Japanese Foreign Office Spokesman, Dated December 31, 1937

With regard to the attacks made by mistake upon the British gunboat Ladybird and other British merchant vessels on December 12 at Wuhu and in the vicinity of Nanking, the Minister for Foreign Affairs, Mr. Koki Hirota, in a note dated December 14th addressed to His Excellency the British Ambassador, Sir Robert Craigie extended profound apologies on behalf of the Japanese Government. On December 16th, the British Ambassador delivered a note concerning the matter to the Foreign Minister, to which the latter handed a reply to the British Ambassador on December 28th.

The contents of the above-mentioned notes have already been made public.

On the morning of December 31st, the British Ambassador sent a final note to the Foreign Minister informing the latter that the

British Government notes with appreciation the assurances contained in the Japanese note of December 28th and has learnt with satisfaction that the statements of the Japanese note of December 14th apply to merchant vessels as well as to warships and also that the Japanese Government has taken or is prepared to take the necessary disciplinary measures to prevent any repetition of such incidents.

It is deeply to be deplored that these unfortunate incidents occurred but it is at the same time a matter of congratulation that they should have been settled amicably through the traditional spirit of friendship existing between Great Britain and Japan, supported by the attitude of calm and the sincerity which prevailed in both countries in connection with this matter.

III

Death of Mr. Sandro Sandri, Italian Journalist

Statement of the Japanese Foreign Office Spokesman, Dated December 16, 1937

On receiving unofficial information late in the afternoon of December 15th concerning the death of Mr. Sandro Sandri, Italian press correspondent, at the time of the sinking of the American gunboat Panay, the Foreign Office promptly caused the Director of the European and Asiatic Bureau, Mr. Kojiro Inouye, to call on Mr. Giacinto Auriti, Italian Ambassador at Tokyo, and to tender to the latter an expression of condolence. As official report of the death of Mr. Sandri was received later in the evening, the Foreign Minister, Mr. Koki Hirota, sent to the Italian Ambassador an Official Note in connection with the unfortunate incident.

Simultaneously, Mr. M. Hotta, Japanese Ambassador at Rome tendered a similar expression to the Italian Government, sending at the same time Mr. Matsumiya, Counsellor of the Embassy to Trino in order to express condolences to the *Stampa* and the bereaved members of the late Mr. Sandri.

Mr. Koki Hirota's Note to Signor Giacinto Auriti, Dated December 15, 1937

I have the honour to inform Your Excellency that, in view of the very friendly attitude shown by the Italian Government and people toward Japan since the outset of the present Sino-Japanese Affair, it is a particular matter of regret for the Japanese Government that Mr. Sandro Sandri, an Italian press correspondent who

happened to be on board the American gunboat Panay on December 12th at the time the Japanese naval aircraft bombed her by mistake, passed away as the result of that bombing.

I hereby tender, on behalf of the Japanese Government, the expression of its most sincere condolence, which I request Your Excellency to transmit to your Government. I wish to add, Your Excellency, that the Japanese Government is prepared to bear full responsibilities in making the necessary indemnification for the losses involved in this unfortunate incident.

THE SITUATION IN CHINA

I

—ADVANCE OF THE IMPERIAL ARMY—

PRESS SECTION, WAR DEPARTMENT

Fall of Nanking

AUTHORITATIVE information received by the Japanese military command in Central China reported that General Chiang Kai-shek fled from his capital by aeroplane on the morning of December 7, 1937, for Nanchang, capital of Kiangsi province. The last day of Nanking was near.

General Tang Sheng-chih was making desperate efforts to defend the city, but the Japanese forces established positions dominating Nanking by breaking through the main defence line of the Chinese in the vicinity. All that remained before complete Japanese occupation could be effected was to drive the remnants of Chinese troops from in and around the walled city.

Prior to a general attack on Nanking, General Matsui, Commander-in-Chief of the Japanese Army on the Central China front, sent a letter to General Tang Sheng-chih, Commander of the Chinese troops defending Nanking, at noon of December 9th, advising him to surrender peacefully by noon of the following day. The letter which General Matsui sent through chivalrous and humanitarian motives was dropped at General Tang's headquarters by a Japanese military plane.

The message urging peaceful capitulation read, in substance :

> " The fall of Nanking is inevitable under present circumstances. Further resistance in a city which has been the capital of China for a long time and which has been the seat of Chinese culture for centuries with a large number of historic sites and monuments promises nothing but destruction of the valued Chinese culture. This, Japan is unwilling to witness. You are hereby requested to hand over Nanking peacefully to the Japanese troops, taking a long view of the situation. Your reply is expected by noon, December 10th."

General Tang Sheng-chih, however, failed to reply to General

Matsui's letter, and his troops maintained stubborn resistance against the Japanese forces. The Japanese military authorities, therefore, decided to launch a general attack on Nanking at 1 o'clock on the afternoon of December 10th. The full strength of the Japanese artillery was brought to bear upon Nanking. Simultaneously all Japanese forces started an onslaught on the walled town, while the Japanese air force took an active part in the general attack.

The Japanese military and naval air forces attacked not only the Chinese troops in Nanking but those retreating along the Yangtze River from Nanking. They also visited the Chinese air bases and bombed new Chinese aeroplanes which were purchased from abroad for the purpose of reorganizing the Chinese air force.

In the eastern sector of Nanking The converging Japanese forces steadily tightened their encircling line around the city, dislodging the Chinese troops in their way. After breaking through the Chinese positions along the line between Tangshuichen and Tangshan, the main body of the Japanese force driving on the eastern sector of Nanking reached Huangnishu toward evening, December 9th. The Ono and Noda detachments which formed the vanguard pressed hard on Chilinmen 8 kilometres east of Purple Mountain at noon, December 8th. At dawn, the following day, the two detachments launched a furious attack on the Chinese troops at Chilinmen.

The following evening, the detachments advanced to the line joining the eastern side of Chilinmen to Tsangpochen. Breaking through frontal enemy positions, the detachments made further advances during the afternoon of December 10th. The right wing reached Yaopeimen, 9 kilometres north-east of Nanking, while the main body advanced to the southern and eastern base of Purple Mountain.

On December 11th, the Japanese right wing broke through the enemy position near Yaopeimen and advanced to its western district. The main body was attacking the enemy position between the summit of Purple Mountain and Hsiaowei, but toward evening, December 11th, succeeded in reaching the line connecting the northern extremity of Lake Yuanwu to the eastern side of Chungshanmen via the western base of Purple Mountain.

The Japanese forces steadily kept up their drive on Nanking. By the evening of December 12th, the right wing neared Hopingmen, while the main body occupied the summit of Purple Mountain at 5 : 30 p. m., December 12th.

Part of the Ono detachment stormed the Chungshanmen of Nanking at 3 : 20 a. m., December 13th, which it succeeded in occupying. The sun-flag was hoisted on the gate amidst lusty shouts of " banzai."

Part of the Katagiri detachment early in the same morning occupied Sun Yat-sen's mausoleum.

Following the capture of Chungshanmen the Japanese troops dashed into the walled town and occupied the Chinese military establishments near the gate. The Sukegawa detachment which drove north of the walled town reached Hsiakwan and cut off the retreat of the Chinese troops from Nanking to the north and also to the west along the Yangtze River.

The Chinese troops left about 5,000 dead in the northern section of Nanking up to December 13th. Additionally, the Japanese troops captured 3 locomotives, 6 passenger carriages and 38 freight waggons at Hsiakwan on December 13th.

In the south-eastern sector of Nanking The Japanese forces which had been attacking Chunhuachen since December 6th succeeded in breaking through the enemy position at Chunhuachen and reached Kaomiao the same evening in pursuit of the retreating enemy. On the morning of December 9th, they pressed hard on Nanking. The next afternoon they reached the line along the creek below the walls of Nanking connecting the eastern side of the Chungshanmen and the south-eastern salient of Nanking.

The Wakizaka detachment which had been pushing on Nanking along the old highway reached the Kwanghuamen of the city on December 9th when fighting at close range developed between them and the Chinese troops which made desperate efforts to defend the position. At 5 p. m., December 10th, the Wakizaka unit succeeded in blowing up part of the gate and storming the gate itself. The following day, fresh Japanese troops arrived near the gate. The detachment with those reinforcements then penetrated into the walled city.

The right wing of the Japanese force which had been attacking the south-eastern salient of Nanking broke through the enemy position at a height east of the Chungshanmen and on December 10th approached within 100 metres of that gate. Under cover of artillery, the Japanese force launched hand-to-hand fighting against the enemy. At dawn, the following day, the Japanese troops dashed into the walled town through an opening blasted near the Chungshanmen and drove north, after dislodging the enemy which offered stiff resistance.

Another Japanese unit which advanced on Nanking via Changchow and Kintan reached the Shangfangmen on December 12th by way of Tienwangsze and Hushu. The Takamori detachment which led this unit participated in the engagement at the south-eastern sal-

ient of Nanking. After occupying the salient, the detachment on December 13th pressed hard on the Wutingmen.

In the southern sector of Nanking The Japanese forces which had been advancing on Nanking from Lishui occupied Molingkwan on December 7th and continued their pursuit of the retreating enemy. The Okamoto and Takeshita detachments, after reaching the southern area of Lishui drove north-west side by side with the Japanese forces which advanced from Lishui, and reached the line connecting the area north of Shuiko and the area east of Kulitsun on the evening of December 8th. The following day they advanced to the line connecting the area north of Shuiko and the area east of Kulitsun. On December 9th they advanced to the line connecting the height south of Yuhuatai and Sishanchiao, thus pressing back the enemy into Nanking.

The Chiba, Yamada, Yazaki and Yamamoto detachments maintained their fierce onslaught on the enemy position along the line between Heungchuan and Antehmen on the southern side of Nanking on the night of December 10th. The situation began to develop in favour of the Japanese, especially the Japanese right wing. The Yamamoto detachment approached within 700 metres of Yuhuatai by the evening of December 11th.

The Okamoto and Hasegawa detachments on December 11th continued their attack on the enemy position along the line between Antehmen and Mokwantao on the southern side of Nanking. The Takeshita detachment advanced west of Nanking and stormed the Shuisimen on the morning of December 13th. This unit drove into the city and occupied a height in the north-western section of Nanking in the late afternoon.

At about 4 p. m., December 11th, the Chinese troops in Nanking started to retreat upstream in over a dozen boats, on which a part of the Japanese artillery and infantry forces fired from the southern bank of the Yangtze River.

The Japanese forces which had been attacking Nanking from the south reached the northern base of the Yuhuatai height on the morning of December 12th, when they started an attack on the southern walls of Nanking, At noon, December 12th, the Hasegawa and Chiba detachments succeeded in storming the Chunghuamen, the most strongly guarded of all the gates of Nanking. Two Okamoto detachments were also active in the final onslaught on the city. One of these occupied the walls west of the Chunghuamen at 4 : 20 p. m., on December 12th. The other occupied the south-western salient at 4 : 40 o'clock the same afternoon. All Japanese forces pressed the Chinese troops back to the northern section of Nanking.

The Japanese troops which entered Nanking from the south, west and east gates of Nanking succeeded in cleaning up the remnants of Chinese troops in the city by the evening of December 13th.

The Japanese forces made a triumphant entry into Nanking on December 17th when General Matsui, Commander-in-Chief, reviewed the Japanese forces. All were filled with deep emotion.

Drive on Hangchow

The capture of Nanking marked a definite stage in the military operations in the Shanghai and Nanking area. Meanwhile, however,a drive on Hangchow, capital of Chekiang province, had been started.

The Japanese detachment which reduced Wuhu on the Yangtze swung south-east and at 2 : 40 p. m., December 21st, occupied Tipuchen, about 8 kilometres south of Anchi. Part of the detachment advanced north of Hsiaofeng and another unit occupied Tungpu during the same evening. The following day, the detachment, after defeating about 500 Chinese troops near Hsiaofeng, drove south and about 3 p. m., reached the line connecting Shuanki, 20 kilometres north-west of Yuhang and Panpanchiao. The detachment steadily continued its drive on Hangchow.

Another Japanese detachment which was standing by in Shanghai, also came into action.

On December 21st it reached Chiaerhtsun, about 20 kilometres south of Huchow. At 2 p. m., the following day, this unit passed through Sanchiaopu (4 kilometres north of Wukong), Shuishihchen (12 kilometres east of Mokanshai) and Nanmulin (20 kilometres north-east of Tehching), thus establishing a position enabling the Japanese forces to encircle Hangchow.

Part of the Japanese force which occupied Yuhang on the evening of December 23rd left Yuhang at 7 o'clock on the same evening, to continue its drive on Hangchow. The following night, the detachment reached Fuyang and was making a forced crossing of the Fuchun River at noon, December 25th, when it was learned that about 4,000 Chinese troops were retreating toward Fuyang from Hangchow by the Hangchow-Fuyang highway. The detachment immediately abandoned its attempted crossing of the river and pressed the retreating enemy toward the Chientang River. The situation was developing in favour of the Japanese forces when the Japanese left column succeeded in outflanking the enemy and advanced on the rear of the Chinese troops from Liuhsiachen, thus trapping the enemy. The Japanese troops overcame the Chinese force at about 5 o'clock in the same afternoon. It transpired that this force

really formed the main body of the Chinese 107th division. The loss sustained by the Japanese in the engagement was negligible.

Another Japanese detachment which was driving on Hangchow from the north reached Pingyaochen on the night of December 23rd and immediately continued the offensive. Part of the Japanese force occupied the Wulin gate, the north-western salient of Hangchow, at 7:50 o'clock, December 24th, while the main body succeeded in cleaning up the remnants of Chinese troops in the walled city shortly after noon on the same day and also occupied the air field.

Hangchow, the capital of Chekiang province, thus fell into Japanese hands on December 24th. The following day, the Japanese forces made a triumphant entry into the city.

One Japanese detachment which was also pushing on Hangchow met the Chinese 63rd division along the line between Tsungteh and Changan and defeated it. This unit entered Hangchow at 2 p.m., December 25th.

The Japanese captured 8 mountain guns, 5 field guns and four other guns in taking Hangchow.

At this point the movement of Japanese forces which crossed over the Yangtze River to the northern bank shortly before or after the fall of Nanking must be mentioned.

The Hanaya detachment occupied Yangchow at the entrance of the Grand Canal opposite to Chinkiang shortly before the fall of Nanking. The vanguard of other Japanese forces which followed the Hanaya detachment to the northern bank of the Yangtze occupied Icheng and Hsupuchiao 4 kilometres north-west of it on the evening of December 16th. The main body then reached the area south-west of Yangchow. After driving away the enemy located in the north-western direction, the Japanese forces occupied Tienchang, 50 kilometres north-west of Yangchow on December 22nd.

Another Japanese unit left Chinkiang on the night of December 15th by motor launch and succeeded in landing at Luho at 8 : 30 o'clock, the following morning. The same evening, this detachment advanced to a district west of Luho. The Chinese troops which defended Luho and the surrounding district apparently belonged to the Shantung army.

The Japanese detachment which advanced to Icheng continued its northern drive on December 17th and occupied Shuikowchen, 14 kilometres east of Chuhsien. Shortly after noon, December 18th, the detachment advanced east of Chuhsien, on which it launched an attack the following day.

One detachment took Shohochi, 12 kilometres north of Chuhsien at 4 : 30 p.m., December 19th, thereby cutting off the Tientsin-Pukow

Railway. The main body of Japanese forces reduced Chuhsien at 10 a.m., December 20th, and continued its northern drive. On December 22nd, these troops occupied Lishantao, 12 kilometres north of Chuhsien and Chulungchiao.

A Japanese cavalry force took Changpaling, 22 kilometres north of Chuhsien, where it inflicted heavy damage on three troop trains and captured over a dozen passenger carriages and freight waggons.

The Adachi and Nagatsu detachments which had also crossed the Yangtze River to the northern bank reached Yangchow at the entrance to the Grand Canal on December 18th. Part of these detachments occupied Hsiennuchen, Icheng and Shiherhwei. On December 21st, they advanced further north and reduced Shaopochen.

The Kurabayashi detachment which was making a vigorous northern drive in the region north of the Yangtze River successfully took Shihshihtze, 50 kilometres north of Anlai. On January 2nd, the detachment occupied Chuyi, about 80 kilometres north of Chuhsien.

About 300 Chinese soldiers staged a counter-attack on part of the Tashiro detachment which was holding Mopanshan, about 30 kilometres north-west of Chuhsien on January 4th, but were repulsed with heavy losses.

II

—FORCES OF THE IMPERIAL NAVY IN ACTION—

PUBLICITY BUREAU, NAVY DEPARTMENT

Activities of the Naval Air Force

(From December 7th to January 3rd)

THE Japanese Naval Air Force has become increasingly active over all parts of China. Its admirable record is continually being bettered. An outline of its recent activities is given below :—

In Central China : December 7th While participating in the attack on Nanking, the Naval Air Force visited Wuhu, where the airfield was bombed; Anking (capital of Anhui province), where the airfield was likewise bombed, and Tienshengchiang (opposite Kiangyin), where bombs were dropped on the fort and other military establishments.

December 8th In addition to a raid on Nanking covering the advance of Japanese troops, the Naval Air Force bombed enemy positions at Tsingkiang, opposite Kiangyin, and the military arsenal at Kunghsien in Honan province.

December 9th Enemy positions in and around Nanking were bombed in cooperation with the attacking Japanese troops. Additionally, Chinese troop concentrations at Pukow, enemy positions at Sanyingkiang, and the airfield at Nanchang were bombed. In the raid on Nanchang, the Japanese fliers destroyed over a dozen Chinese planes on the ground. In the ensuing air duel, the raiders shot down 12 out of more than 30 Chinese challenging planes. One Japanese plane became missing.

December 10th In cooperation with the Army attack on Nanking the Naval Air Force bombed the Chungshanmen and Kwanghuamen, the Kukung airfield and the Military College there.

Naval planes also visited and bombed the Chienkuai Fort at Chinkiang, military establishments at Sanyinkow, and the airfield at Chuchow on the Hangchow-Nanchang Railway.

December 11th Covering the advance of Japanese troops, the Fukueishan Fort and the Kwanhuamen of Nanking were bombed. Several naval air units also attacked enemy positions at Pukow. Additionally, forts near Chinkiang were bombed and the airfield at Loyang, capital of Honan province, was visited, where a hangar and other buildings were destroyed.

December 12th While attacking the Chungshanmen, enemy positions inside the gate, and Chinese troops retreating upstream from Nanking, the Naval Air Force also visited and bombed the Tutienchen and Wulungshan Forts near Chinkiang and the airfield at Nanchang.

In the raid on Nanchang, the naval planes bombed and destroyed 8 aeroplanes including a large-sized one and an aeroplane factory. On the way back the Japanese raiders met 3 enemy Northrops over Huangshan, 130 kilometres south-west of Kwangteh and brought down one of them.

December 14th The Naval Air Force again visited Nanchang where it bombed and destroyed 28 planes on the ground. In a combat with 10 Chinese planes which had been standing by, the Japanese raiders shot down 7 of them and returned safely to their base. Naval planes also raided Anking, capital of Anhui province, where the aerodrome and two godowns nearby were destroyed.

December 15th The activity of the Naval Air Force was extended to the following points which were bombed: military lines of communication at Chuki (50 kilometres south of Hangchow); the airfield at Luchow (Anhui province); the airfield at Pengpu where 2 planes were destroyed on the ground; and machine-gun emplacements at a height north of Pukow.

December 16th Chuki and Hangchow were again visited and Chinese lines of communication attacked.

December 17th The Naval Air Force visited Szeking and bombed the remnants of the defeated Chinese troops there.

December 20th Kiukiang was raided and its airfield was effectively bombed.

December 22nd The Naval squadron visited Nanchang, capital of Kiangsi province and shot down 17 out of over 20 Chinese planes which challenged it. The Japanese raiders bombed and destroyed 13 planes on the ground.

December 25th Several naval planes, after reconnoitring Hangchow and Chuki, bombed freight trains and tracks between Chuki and Pitao.

The Naval Air Force reached Jangyang, 270 kilometres north-west of Hankow, bombed the airfield there and destroyed 4 out of 7 planes which were on the ground.

December 27th The Naval Air Force reconnoitred Anking, Hofei and Pengpu but encountered no enemy planes. The Japanese raiders bombed and destroyed airfields, hangars and godowns at those points.

January 2nd The Naval Air Force again visited Nanchang, capital of Kiangsi province and bombed a hangar, an aeroplane factory and a large-sized plane on the ground. In the ensuing air duel, the

Japanese airmen brought down one Chinese plane. The Naval Air Force also visited Anking, capital of Anhui province and effectively bombed the airfield there.

In North China : December 7th The Naval Air Force visited and bombed the following places : military lines of communication at Tungkwan (east of Sian, capital of Shensi province); military lines of communication and troop concentrations at Hsuchow and districts south of it ; Chingkowchen and Suhsien.

December 8th Hsuchow, the junction point of the Tientsin-Pukow Railway and the Lunghai Railway was visited. The station building and troop trains were effectively bombed.

December 12th The Naval Air Force raided Sian, capital of Shensi province, where a hangar and other buildings together with 2 small-sized planes at the airfield were bombed and destroyed.

December 14th Naval planes visited Lini in eastern Shantung province and attacked the military arsenal there.

December 15th Military barracks at Huaiyin (Kiangsu province) and military lines of communication at Yenchow (Shantung province) were attacked.

December 19th The Naval Air Force visited Chufu, Luhsien and other places in Shantung province where military establishments and lines of communication were subjected to bombing.

December 21st Naval planes visited Lanchow, capital of Kansu province, bombing and destroying one hangar, 6 large-sized and 2 small-sized planes on the ground. In an aerial combat with 10 enemy planes, the Japanese raiders shot down 6 of the former.

December 22nd The Naval Air Force raided Chouchiakow in Honan province and effectively bombed the airfield there.

December 25th Naval airplanes reconnoitred various important towns in Shantung province. Military barracks, freight trains and godowns at Haichow, eastern terminus of the Lunghai Railway, were bombed, while the military barracks at Lini and Lienyunchiang were also attacked.

December 26th The Naval Air Force again visited Yenchow and Hsuchow and bombed military establishments there.

December 27th The Naval Air Force reconnoitred Laoshen near Tsingtao and also visited and bombed military points at Yenchow, Hsuchow, Lini, Ichow and Luhsien.

December 28th Japanese Naval planes attacked enemy concentrations between Tangtao and Chucheng and also an enemy armoured train between Ichow and Hsiachuanchi. The railway station at Yenchow was also bombed.

December 29th While reconnoitring various important towns in

Shantung province, the Naval Air Force visited the following places and attacked enemy concentrations, rollingstock and military barracks in cooperation with the Japanese troops driving southward: Tapingchi, Hsuchow, Yencheng, Kwantunpu, Chucheng, Luhsien, Kulipo, Hanyu, Ichow, Lincheng, Tatien, Wangchiachuan and Haichow.

Several other Japanese naval planes raided Sian, capital of Shensi province and bombed the airfield there, destroying a hangar, an aeroplane factory and an aeroplane on the ground.

December 30th The Naval Air Force raided Hsuchow, Ichow, Haichow, Yenchow, Paichi, Chuangchiachen and Kaitaochi and attacked troop concentrations, troop trains and motorcars, inflicting heavy damage on Chinese troops retreating from Shantung.

Several other naval planes visited Loyang, capital of Honan province, and bombed the airfield there, destroying 4 planes on the ground and several adjacent buildings.

December 31st The Naval Air Force devoted its attention to the Chinese troops retreating southward from Shantung province by train and motor trucks.

January 1st The Naval Air Force visited Taolochen in eastern Shantung province and attacked troop concentrations there.

January 2nd While reconnoitring Tsingtao and other important points in Shantung province, the Naval Air Force visited Hsinanchen and Pingtu, attacking enemy concentrations and troop trains.

In South China, December 8th Naval planes visited various towns in South China and bombed lines of communication.

December 10th The Naval Air Force raided Shiuchow and Canton, bombing the airfields there.

December 12th Shiuchow was raided again. The airfield and an aeroplane factory were bombed.

December 14th Naval planes flew over various important towns in South China, attacking enemy lines of communication.

December 17th and 18th While attacking lines of communication near Canton, the Naval Air Force visited Tienho and Pokwan near Canton and bombed the airfields there, destroying hangars and other buildings.

December 19th The Naval Air Force attacked several important points along lines of communication in South China. In addition, it visited Wuchow and bombed the airfield there, destroying a hangar.

December 20th and 21st Naval fliers bombed the Canton-Hankow, Canton-Kowloon and Canton-Samshui Railways.

December 24th The Canton-Kowloon Railway was bombed near Lintsun.

December 25th The Naval Air Force again bombed the Canton-

Hankow Railway near Yintak, the Canton-Kowloon Railway near Tutang and the Sunning Railway near Taishan.

December 26th Various important points along the Canton-Hankow, Canton-Kowloon, and Sunning Railways were attacked.

December 27th The Naval Air Force bombed the Canton-Hankow Railway near Yuantan and Paknai, the Canton-Kowloon Railway near Changmok and the Sunning Railway near Kungyifow.

December 28th Japanese planes bombed the Canton-Hankow Railway near Hotaoyu, the Sunning Railway near Wanfuktze and the Canton-Kowloon Railway near Changmok.

December 29th The Naval Air Force attacked points along the Canton-Hankow Railway near Changmok, Laitung, Yinchanyao and Pakonghow and the Canton-Kowloon Railway near Lungtow and Tutang.

December 30th Naval planes bombed the motor road between Canton and Hongkong including several bridges. They also bombed the Canton-Hankow Railway near Chuntien, the Sunning Railway near Takianghu and Kungyifow and the Canton-Kowloon Railway near Changhui, Sheklung and Pitsun. A gunpowder magazine at Tsengpu was also bombed.

December 31st The Naval Air Force attacked various important points along the motor road between Canton and Kowloon as well as along the Canton-Kowloon Railway.

January 1st Naval planes flew in formation over Pitsun on the Canton-Kowloon Railway and bombed the military establishments there. They bombed the bridge at Shatsun, about 70 kilometres east of Canton. Several other naval planes visited Canton and bombed the Pokwan airfield and the Canton-Hankow Railway.

January 2nd The Naval Air Force bombed the motor road between Canton and Kowloon as well as the Canton-Kowloon Railway. It also bombed several important points on the Canton-Hankow Railway, including Tsungfa, 60 kilometres north-east of Canton.

The Japanese Fleet on the Yangtze

A brilliant page was added to the annals of the Japanese Navy when, on December 13th, 1937, an Imperial squadron arrived at the Hsiakwan wharf in Nanking. China's capital fell on that memorable day before the combined attacks of the Japanese Army and Navy and their aerial units.

At dawn of the same day, the Japanese squadron had attacked and reduced Wulungshan Fort and Laoyenyu Fort, 15 miles below Nanking and the main defence line of the capital on the Yangtze River.

At 2 o'clock that afternoon, the squadron began the dash on Nanking.

The cruise upstream was a difficult one because the squadron had to silence the enemy on the northern bank of the river who fired incessantly on the Japanese ships. The squadron was able, however, to inflict considerable damage to Chinese troops attempting to flee to the northern bank from the Nanking area. Within four hours after reducing the Wulungshan and Laoyenyu Forts, the Japanese Navy succeeded in cutting off Nanking.

The ten days prior to its success in breaking through the Chinese blockade at Kiangyin was an anxious and difficult time for the Japanese squadron which had to sail upstream by removing booms and sweeping mines on the way, and at the same time fight Chinese troops on either bank of the Yangtze which constantly harassed the warships. After overcoming all sorts of difficulties, however, the Japanese squadron succeeded in securing command of the Yangtze River and participated in the general attack on Nanking, by approaching Hsiakwan wharf four months after the outbreak of the China Affair. The squadron effectively cut off the retreat of Chinese troops from Nanking along the Yangtze.

Since the capture of Nanking, the squadron has been engaged in re-opening the Yangtze to navigation by removing booms and sweeping mines amidst difficulties. The squadron has already succeeded in securing free navigation from Nanking to Wuhu, a stretch of about 400 kilometres.

ON THE FALL OF NANKING

PRINCE FUMIMARO KONOE, PRIME MINISTER

THE fall of the renowned stronghold of Nanking so early is rather surprising. It is of course attributable to the august virtue of His Imperial Majesty, and to the loyalty and courage of our military and naval forces. For these the entire nation is grateful. And those who have fallen or been wounded in action, I know of no words with which to express our heartfelt sympathy and gratitude.

At the outset of the present China affair, Japan pursued as far as possible, a policy of reaching a settlement without aggravating the situation, which policy was strategically disadvantageous to Japan. Despite this, however, the Imperial forces have in only a few months swept everything before them in the extensive regions north of the Yellow River, and have broken through the fortified zones of the Yangtze area. Here is manifested the true strength of the Imperial forces.

It was a fatal blunder on the part of the Nanking Government to miscalculate the real strength not only of the Japanese fighting services but of the modern Japanese nation as a whole. China, I believe, should see this point and cease her futile opposition against Japan. Other Powers in their turn will no doubt become cognizant of Japan's position as the stabilizing force in East Asia. That the Chinese Army has become stronger is true. That this army has been employed not to fulfil its proper mission but for a wrong purpose is all the more profoundly to be regretted. For this the leaders of the Nanking Government must assume responsibility. "Begin right in order to end right" is a familiar saying. China made a wrong start. The mobilization of Chinese nationalism by the Nanking Government on the basis of anti-Japanism has resulted in the nullification of all that that Government has built up so far.

We have persistently urged China to reconsider her attitude in this regard and to embrace the great principle of cooperation between Japan and China. The recent advice of General Matsui, commander of the Japanese forces in Shanghai, for peaceful capitulation of Nanking was also made from such a motive. But as this advice was totally ignored, he could not but undertake the general offensive against the capital. Upon hearing the report of the fall of Nanking, even before we rejoice over the victory that is due Japan, we find ourselves deploring the irredeemable folly of the Nanking leaders from the standpoint of five hundred millions of Chinese people who

are our kith and kin in blood and culture.

General Chiang Kai-shek, who had boastfully declared that he would hold Nanking to the death, fled the city in haste, yet is still calling for long-term resistance to Japan. However, modern warfare is waged on the basis of national mobilization not only of military forces but of industrial and other resources. He is, therefore, playing into the hands of the Communist Party by pinning his hopes upon the stratagem of guerilla warfare.

The Nanking Government has done its worst against Japan both in diplomacy and in military action. Yet for the inevitable consequences of these actions it refuses to assume responsibility; having abandoned the capital and broken up the machinery of government, it is reducing itself to a mere local military regime. Since it is now evident that its leaders have no intention of reconsidering their attitude even at this juncture, we on our part must modify our own attitude. While Japan will not relax her offensive against the anti-Japanese regime and its armies, she cannot but be deeply concerned with the welfare of the masses of China. Where there are people there must be government, and that government must possess substantial qualifications. Having abandoned the four metropolitan cities of Peiping, Tientsin, Nanking and Shanghai, the Nanking Government is nothing but a shadow without substance. Therefore, in the event a new government with just aims comes into existence following the collapse of the Nanking Government, Japan will be obliged to take concrete measures for mutual existence and prosperity in concert with such a government.

That unexpected misfortunes have befallen the lives and properties of the nationals of friendly third Powers is a matter for which we wish to express our heartfelt sympathy.

The world is at present going through a period of transformation. Anyone who properly understands this universal trend will not doubt that China can be organized successfully only on the basis of friendship with Japan, and that only by the emergence of such a New China can the interests of European and American countries in the Orient be really secured. The China affair is an East Asian tragedy. In order that an unhappy affair of this sort shall not be repeated in the future, Japan must not shirk her responsibility in effecting fundamental readjustments. In this sense, the fall of Nanking is but a prelude to the solution of the China problem, and we must accordingly be prepared for a real war of endurance which is beginning from the present moment. I wish to take this opportunity of urging upon the nation the necessity of redoubled efforts in all fields of national activity, both internal and foreign.

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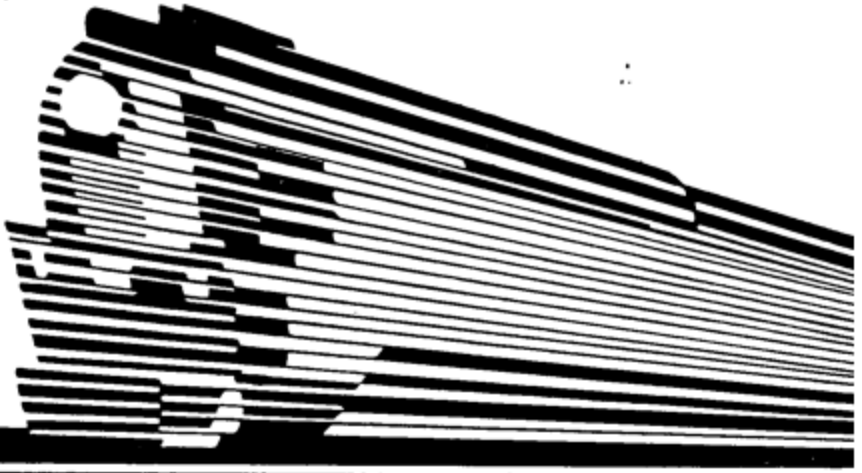

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